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PENSIONS IN ITALY

December, 1953

TOWERS, PERRIN, FORSTER & CROSBY, INC.
12 SOUTH 12TH STREET
PHILADELPHIA 7

230 PARK AVENUE
NEW YORK 17

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PLEASE REPLY TO PHILADELPHIA

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PENSIONS IN ITALY

The attached report is based upon field work done in Italy in June of this year by our Director and former President, Mr. H. Walter Forster. Conferences were held with executives of Government agencies, insurance companies, corporations, and with consulting actuaries. In every instance, all possible help was given us, and several of the men interviewed were good enough to review a first draft of our report to insure the final draft being accurate as of September 1, 1953.

The purpose of this report is to give our clients a fairly condensed picture of what the national pension system provides, what employers are doing to supplement that system, and the tax status of both public and private pension plans. Naturally, if such a plan is to be installed, or an existing plan modified, up-to-date and more complete information must be obtained on the ground. This is particularly important, as pensions have recently been greatly liberalized in Italy and further changes are possibilities.

The organization of this report is as follows:

To the best of our ability, we shall be glad to answer questions raised by the readers of this report.

Very truly yours,

JOHN ALDEN TOWERS
President

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PENSIONS IN ITALY

PART 1: GENERAL SUMMARY

1. Italy has had a national pension system since 1919. It was revised radically in 1952 to bring pensions more nearly into accord with present conditions. Separate and differing Government sponsored pension plans protect various groups of Government employees and also groups of private employees in stipulated fields. While the national system covers but a fraction of the working population (8,088,000 contributors at the end of 1948), more than 2,000,000 pensions are now being paid under this system alone.

2. The present average annual pension paid under the national system is L. 83,000, or about $133 at the standard rate of exchange, as against average industrial earnings of workers of L. 1,077 per day and of staff of L. 44,318 per month. Pensions are paid as a matter of right. Employment after the normal retirement age of 60 for men and 55 for women is encouraged, both by paying them 75% of the pension and by increasing the eventual pension. The national system pays a minimum pension of L. 45,000 per year from age 60/55 and a minimum of L. 65,000 from age 65, or earlier invalidity.

3. Pensions are provided for invalidity, for widows and orphans, and for dependent parents.

4. Private pension plans of a formal, announced type appear to be relatively rare, although it is believed that many employers have in the past supplemented the national pension in an informal manner, and that some are today doing so, in spite of the liberalization under the 1952 law. Pensions have apparently not been a matter of negotiation with unions in the industrial field. Two reasons which cause employers to be reluctant to establish formal private pension plans are the legal requirement to pay heavy service indemnities to employees who leave (retirement is a form of leaving) and the existence of thrift plans for Dirigenti (supervisory employees) generally calling for combined contributions of 15% of earnings.

5. The conditions herein described are as of September 1, 1953.

PART 2: EMPLOYEE DATA

CLASSES OF EMPLOYEES

6. The laws bearing on Social Insurance recognize three classes of employees, all of whom come under the system:

(a) Operai (workers)

(b) Impiegati (staff)

(c) Dirigenti (supervisors)

7. While supervisors are included in the Social Security program and under Family Allowances, they are temporarily excluded from pensions for age

and invalidity, and from protection for their widows and orphans. Pending the passage of a law which will bring them under the national pension system, contributions are being made by and for them under the plan described in Part 4.

AVERAGE EARNINGS

8. The latest publication entitled "Rassegna di Statistiche Del Lavoro" gives labor statistics up to February, 1953, and covers about 2,500,000 employees of 78,000 organizations, constituting some 80% to 90% of Italy's industry. From this it appears that the range in earnings of workers and staff, which varies by districts and capability, now is about as follows:

(a) Male Workers: Per day from L. 1,062 up to 1,330 in Rome; from 1,133 to 1,401 in Milan; lower in other places; industrial average 1,077.

(b) Female Workers: Per day from L. 856 to 970 in Rome; from 927 to 1,023 in Milan; lower in other places; included in industrial average given for males.

(c) Male Staff: Per month from L. 30,475 up to 63,763 in Rome; from 32,321 to 65,609 in Milan; lower in other places; industrial average 44,318.

(d) Female Staff: Per month from L. 26,136 up to 61,579 in Rome; from 27,930 to 63,373 in Milan; lower in other places; included in industrial average given for men.

9. All wages and salaries, such as the foregoing, are paid upon the basis of 14 months per year, to cover the required Christmas and vacation bonuses.

10. Supervisors are not covered by the above report. We were told that L. 120,000 per month would be a minimum salary in the large cities, and that the average there would be around L. 250,000. These salaries also are paid on a 14 months per year basis.

VACATIONS

11. The customary vacation schedule is reported to be:

	Working Days Of Vacation Per Year	
	Workers	Staff And Supervisors
Service up to 1 year	0	0
Service from 1 to 2 years	8	15
Service from 2 to 20 years	15	20
Service over 20 years	20	30

UNIONIZATION

12. Membership in unions is not obligatory in Italy and there is no

closed shop. However, the great majority of workers, staff, and supervisors belong to unions, either upon a national or local area basis.

13. If an employee sees fit not to join a union, he receives, according to the law, the same benefit as the union members.

14. Unions formerly sponsored by employers for their employees are now free of employer influence. Employers, however, have their own unions, and it is estimated that 60 to 65 percent of the employers in the industrial field belong to such unions. The Confederazione Generale dell'Industria Italiana, which represents the association of all employers' unions for the different industrial fields, negotiates with the workers' unions and the decisions are applied upon a national basis.

PART 3: NATIONAL PENSION SYSTEM

15. Italy established its first national pension system in 1919. The law was amended in 1935, 1939, 1943, and radically as of April 4, 1952 under Law 218. The system is compulsory for persons employed in industry, commerce, finance, agriculture, and domestic service, but for the present it excludes Dirigenti. Furthermore, separate plans exist, not only for the armed forces, civil servants, employees of the communes (political subdivisions), and employees of the nationalized railway system, but also for the employees of the income tax and customs divisions, and the employees of private marine, railway, and telephone operations. These plans differ among themselves, but all are Government sponsored, and funds are handled by stipulated Government agencies. The proposed separate Government pension plan for Dirigenti has not yet been definitely approved, but it is anticipated that it will be before long.

16. Self-employed persons are excluded, but under a long established plan (Assicurazione Facultativa), the Government offers to write individual annuities. Prior to April 4, 1952, these were offered at favorable rates.

17. Foreigners who are resident in Italy, and have permission to work for an Italian employer, are covered by the entire Social Security Program.

18. Pensions for invalidity, widows, orphans, and dependent parents are part of the national pension system.

19. Pensions are granted as a matter of right.

20. Reciprocal agreements, covering only pensions, or also additional Social Security benefits, and protecting citizens living away from home, exist with the United States, France, Great Britain, Luxemburg, Switzerland, and Western Germany, and are likely to be extended.

SOME NATIONAL PENSION SYSTEM STATISTICS

21. The Instituto Nazionale Previdenza Sociale (called I.N.P.S.) was good enough to provide the following statistics:

(a)	Number of employed persons covered on 12-31-1948 (the latest available figure)	8,088,000
	Included in the total were 1,965,000 agricultural workers.	
(b)	Number of pensioners, on 12-31-1952:	
	(1) Pensioned for age,	1,319,000
	(2) Pensioned for invalidity,	510,000
	(3) Pensioned widows, orphans, and parents,	169,000
		1,998,000
(c)	Number of persons, on 12-31-1952, who were working after age 60/55 and receiving reduced pensions,	176,000
	75% of these persons are males	
(d)	Total pensioners at end of 1952,	2,174,000*
(e)	Average annual pension of all persons receiving pensions,	L. 83,000

*In 1950, the total number of pensioners was 1,809,000.

NORMAL RETIREMENT AGES

22. The law stipulates that old-age pensions will be payable from age 60 to males and 55 to females. Deferred retirement is not only permissible, but is encouraged (1) by reducing the pension payable from 60/55 by only 25% during such continued employment, and (2) by increasing the pension from the later date of retirement. See paragraph 37.

23. Disability pensions may be granted at any earlier age.

MINIMUM SERVICE REQUIREMENTS

24. Age pensions are payable only if the employee has contributed to the national system for at least 15 years. The law requires a minimum of 180 monthly or 780 weekly contributions. Since 1-1-1952, contributions are credited toward this minimum period during periods in which unemployment allowances are paid, hospitalization effected, or post-hospitalization subsidy received.

25. Disability pensions are payable only after a minimum contribution period of 60 months or 260 weeks, upon the same basis as for age.

26. In order for a widow, orphans, or dependent parent to receive a pension, the employee who died before his pension became effective must have been registered under the law at least 5 years, and made payments for at least 1 year during the 5 years preceding his death.

CONTRIBUTIONS FOR PENSIONS

27. Workers and Staff pay a tax of 3% of all forms of remuneration towards the national pensions system. Contributions are payable during employment (minimum permissible age 14), including any beyond age 60/55.

28. Employers pay two pension taxes for workers and staff, one according to the following schedule, and in addition 6% of all paid remuneration:

Class	Monthly Earnings	Monthly Employer Contribution For Pensions
1	Up to L. 15,600	L. 26
2	L. 15,600 to 21,200	36
3	21,200 to 27,300	44
4	27,300 to 33,800	56
5	33,800 to 41,200	66
6	41,200 to 49,400	78
7	49,400 to 58,500	92
8	58,500 to 68,500	108
9	68,500 to 79,300	126
10	79,300 to 91,400	144
11	91,400 to 105,000	160
12	105,000 to 120,000	178
13	Over 120,000	200

29. These tabulated employer contributions are recorded in the form of stamps in booklets which are renewed each two years. The aggregate of these contributions underlies the base pension.

30. These tabulated contributions are designed to provide the base pension upon a capitalized basis. The employee contributions of 3%, the employer's contributions of 6%, plus Government contributions of 3% upon the entire employer's payroll, are used upon a disbursement basis to provide the balance of the pension, viz. a total of 45 times the base pension.

PENSIONS FOR WORKERS AND STAFF

31. The annual amount of base pension depends upon the aggregate amount of the stamps which have been pasted into the worker and staff booklets, and is established as follows:

	Value Of Stamps	Males From Age 60	Females From Age 55
(a)	First L. 1,500	45%	33%
(b)	Next L. 1,500	33	26
(c)	Balance	20	20

32. The result is multiplied by 45, under the 1952 law, and brought to a round figure. To this are added 10% for each dependent son under age 18 (higher if unable to work) and the state financed quota of L. 100.

33. Prior pensions have been put upon the new basis.

34. To illustrate: Assume a male employee with L. 10,000 in stamps, and with no dependent son. His annual pension from age 60 will be:

L. 1,500 x .45 or	L. 675	
1,500 x .33 or	495	
7,000 x .20 or	1,400	
	2,570 plus L. 100, or	L. 2,670,
	rounded to	L. 2,676
2,676 x 45	or L. 120,420, rounded to	L. 120,600

payable at a monthly rate of L. 10,050, subject to an additional month payable in December.

35. Forecast Table. The following table was prepared for the President of one company interviewed:

Average Monthly Earnings	Monthly Pensions Payable To Workers And Staff Under The 1952 Law — Period Of Employment Credited Under 1952 Law: 15 Yrs.	20 Yrs.	25 Yrs.	30 Yrs.	35 Yrs.	40 Yrs.
L. 25,000	L. 8,100	L. 10,500	L. 12,050	L. 14,150	L. 16,000	L. 18,000
30,000	9,700	12,250	14,750	17,300	19,800	22,300
35,000	11,050	14,050	17,000	20,000	22,950	25,900
45,000	12,700	16,200	19,700	23,200	26,400	30,250
55,000	14,600	18,700	22,850	27,000	31,150	35,300
70,000	19,150	24,850	30,500	36,200	41,850	47,500
100,000	23,750	30,950	38,150	45,350	52,550	59,750

36. The ratio of pension to final earnings is certain to be much lower, because the above ratios are based on average earnings. Also, in the highest earnings classes, the limit of included earnings of L. 120,000 in any one month may reduce the pensions below those shown.

37. Deferred Retirement. For men who work beyond age 60, and women beyond age 55, two special provisions exist:

(a) 75% of the pension available at age 60/55 is paid while working after these ages. The 25% reduction in the pension may, however, not exceed 25% of subsequent earnings.

(b) The base pension is increased by 20% of the additional stamps credited during the deferred employment, but not beyond age 65. This amount is also multiplied by 45.

To illustrate: Assume that a man works until age 65 and accumulates L. 3,000 of additional stamps. He will receive a supplemental annual pension of L. 3,000 x .20 x 45, or L. 27,000, and also a 13th monthly payment equal to L. 2,250.

38. Minimum Annual Pension payable in no event is to be less than:

(a)	From age 65 for age or for earlier disability	L. 65,000
(b)	Before age 65 for age	45,000

39. Maximum Pension is not to exceed 80% of the average earnings of the insured person during the final 5 years of employment.

40. Working Wives are entitled to a pension based upon their own aggregate stamps. If their husbands predecease them, the wives are entitled in addition to 50% of the husband's prior or prospective pension.

INVALIDITY PENSIONS

41. Invalidity (disability) pensions are payable if an insured person is presumably permanently disabled to the extent that, in an occupation suitable to his qualifications, he cannot earn one-third of the usual earnings, if a worker, and one-half if staff.

42. The method of figuring invalidity pensions is the same as for age pensions, upon stamp credits to date of invalidity, subject to an annual minimum of L. 60,000.

PENSIONS FOR DEPENDENTS

43. Pensions for dependent survivors are based upon the pension an insured person was receiving if he had reached retirement age, or upon a disability pension he was receiving from an earlier age. If he dies before retirement age, stamp credits to date of death determine the pension of which dependents are paid a percentage.

44. The L. 45,000 minimum pension provision affords protection to dependent survivors, where the service of the deceased has been short or earnings very low.

45. The minimum pension paid to a widow or to one or more full orphans is 50%, and the maximum to a widow and 3 orphans, or to 4 full orphans, is 100%.

46. Widows receive 50% irrespective of their age or of the presence of children. Pensions are terminated on remarriage.

47. Disabled husbands of working wives are treated the same as widows.

48. Orphans receive 20% each if half orphans; 30% if full orphans; up to age 18; to a higher age if incapacitated.

49. Parents and Grandparents, who are age 65 or over and who are dependent, receive 15% each, not to exceed 30% in all in this category.

50. Christmas Bonuses of one month's pension are payable to dependent survivors as well as to retired insured persons.

LUMP SUM PAYMENTS TO DEPENDENTS

51. Dependent wives and children, not entitled to pensions upon the death of an employee, receive 45 times the base contributions; not less than L. 22,500, nor more than 67,500.

PART 4: SPECIAL EMPLOYMENT PROVISIONS

DIRIGENTI

52. Dirigenti (supervisory employees) may be so designated by their respective employers, although, where Dirigenti belong to unions, the classification of positions may be a matter of negotiation.

53. Dirigenti are temporarily excluded from the national pension system. For this reason, in part, special funds have existed for their benefit as far back as 1927, in industry, commerce, finance, etc. The principal fiscal agency which handles these Dirigenti funds is IPADAI (Instituto Di Previdenzia a Assistenzia De Dirigenti Azicode Industria). Prior to 1939, it was legal for employers to offer separate plans to their own Dirigenti, provided benefits were at least equal to the group plan.

54. A bill already passed by the Italian House, but which did not reach the Senate in time, will be reexamined by the new Parliament, and it is expected will confer on IPADAI the administration of pensions for old age, invalidity, and widows and orphans.

55. The present customary contribution rates by employees of 4%, and by employers of 11%, of all remuneration are likely to continue as a minimum, but the percentage is likely to be limited to annual earnings of L. 3,289,000. The proposal is to pay pensions on a scale to be fixed by administrative decree, based on the average earnings of the last 5 years, instead of paying out accumulated capital and interest as at present.

56. It is expected that Dirigenti will have the option to join either IPADAI or private funds. If an employee leaves a private fund, he will be paid his share upon leaving. If he is in IPADAI, his credits will stand if he leaves one employer to go to another. Upon retiring from work, for age or disability or other reason, or death in service, all credits will be paid to him or his beneficiaries.

57. For the tax status of such plans see Part 7.

58. The payments made to long service Dirigenti, together with their notice and service indemnities, are so large that those employees could purchase substantial annuities for themselves if they saw fit to do so. This is a major reason why so few private pension plans appear to have been established to date.

PAYMENTS ON LEAVING EMPLOYMENT

59. Two interrelated laws bear upon payments made by the employer to persons who leave his employ:

(a) Preaviso (Notice of Discharge Indemnity), and

(b) Indemnita di Licenziamento (Service Indemnity)

60. NOTICE OF DISCHARGE requires the following payments, related to final earnings:

(a) Workers generally for a period based, as a rule, on labor contracts.

(b) Staff, according to category

Category	Years Of Service: Up To 5 Years	5 To 10 Years	Over 10 Years
	Payment To Employee		
1st	2 months	3 months	4 months
2nd	1.5 "	2 "	2.5 "
3rd	1 "	1.5 "	2 "

(c) Supervisors. Service up to 2 years; 5 months' salary. Additional service = one-half month per year, not exceeding 7 additional months, making 12 months' salary the maximum.

61. The periods in the preceding paragraphs are established by contracts stipulated by the unions.

62. These lump sum payments are due if an employee is discharged without notice. If advance notice is at least as long as specified in the above tabulation, he receives pay to that date, and is obliged to remain at the disposal of his employer, but with time out to look for another job.

63. SERVICE INDEMNITY requires the following payments, also related to final earnings, as generally provided by union agreements:

(a) Workers, generally a certain amount based, as a rule, on labor contracts.

(b) Staff, one month's salary per year of service, without limit, for any service after 1945. For service prior to 1937, one-half month per year; during 1937 to 1944, five-sixth month per year.

(c) Supervisors, one month's salary per year of service for the first 10 years of service; 1.5 months for the additional years of service, without limit.

64. The final earnings upon which these two indemnities are based are the regular earnings only.

65. The service indemnity is payable whether or not the employee works during his notice of discharge period.

66. Payments must be made in cash if the employee so elects, and no offsets are allowed because of other employer sponsored benefits to which the employee may be entitled.

67. Any act which would bar the employee from continuing with his employer, as theft, fraud, etc. relieves the employer of paying both forms of indemnity.

68. If a staff member is promoted to be a supervisor, he may receive the service indemnity payable at the time of promotion, or his prior staff service may be added to his supervisor service and eventually paid him. The latter method, because it is more favorable to the employee and defers the employer's payment, is usually followed.

UNEMPLOYMENT INSURANCE

69. The daily rate payable to an insured person out of work because of discharge (involuntary separation), and properly registered in the public employment offices, is L. 227 for workers and 232 for staff, beginning with the 8th day following termination of work, plus L.80 per dependent child up to age 18 for workers and 16 for staff; to a higher age for sons permanently disabled. Parents over ages 60/55, if dependent and without funds or other assistance, receive L. 80 each.

70. Indemnity payments are limited to a maximum of 180 days in any one year.

71. The low rate, and the need of daily signing an unemployment register, are designed to encourage persons to take employment. However, unemployed persons have vocational training available to them, and are not required to sign the register while so engaged.

72. While there is a special tax on employers (see paragraph 80) to promote public works, in part to relieve unemployment, there is no compulsion on the employee to accept this or any other form of work that may be available to him.

FAMILY ALLOWANCES

73. Special provisions as to Family Allowances exist for Government employees and certain other categories, but other industrially employed persons, are entitled to the following Family Allowances:

		L. Per Day
(a)	For a wife, earning less than L. 10,000 per month	100
(b)	Per dependent child up to age 18, and up to 21 if a student	153
(c)	Dependent parents over age 60/55 each	55

provided monthly income is less than L. 10,000 in the case of one parent and 15,000 in the case of two, or, if unable to work, provided pension incomes do not exceed L. 10,000 and 15,000 respectively.

74. Prior slight differences in benefits between workers and staff were removed in June 1952. Dirigenti also are included in this form of Social Insurance.

75. Toward these benefits, employers contribute 22.5% of all remuneration up to L. 23,400 per month per male employee and 19,500 per female employee.

OTHER BENEFITS

76. The comprehensive Italian Social Insurance program involves other benefits such as insurance against tuberculosis, sickness and work accidents, medical and hospital benefits, and maternity benefits.

PART 5: TOTAL EMPLOYER CONTRIBUTIONS

77. The national pension system contributions are only a small part of the total contributions (taxes) the employer is required to make to the Social Insurance Program.

78. The Statistical Report referred to in paragraph 8 shows that the average rates of contribution in industry for the month of February 1953 were as follows:

(a) Workers 28.3% on all remuneration, plus
19.1% on remuneration limited to L. 900 per day.

(b) Staff 21.7% on all remuneration, plus
11.4% on remuneration limited to L. 23,400 per month.

79. These costs do not include holiday and vacation pay or Christmas or vacation bonuses.

80. One Italian company provided the following breakdown of its social insurance contributions:

Purpose	Rate	Based On Monthly Remuneration Of
Pension stamp schedule (paragraph 28)	0.2% (approx.)	Maximum L. 120,000 for workers and staff
Pension 44 times fund	6.0%	Entire remuneration of workers and staff
Work Accidents	2.58%*	Entire remuneration of workers
Sickness - Workers	6.53%	Entire remuneration of workers
Sickness - Staff	4.0%	Entire remuneration of staff
Family Allowance (supervisors included)	22.5%	Remuneration up to L. 23,400 for male and 19,500 for female employees
Housing Program	1.15%	Entire remuneration of all employees
Public Works Program	4.0%	Entire remuneration of all employees

*This rate varies in different industries.

81. Adding holiday and vacation pay and bonuses, together with notice and service indemnities, the total costs become very large as a percent of regular employee earnings. This is Company A in the second paragraph following.

82. Since supervisors are excluded from all benefits except Family Allowances, many employers apparently make special provisions for them in addition.

83. The total expenditures for the year 1952, in percent of payrolls, for two large Italian companies were as follows:

Benefits For	Percent Of Regular Earnings Company A	Percent Of Regular Earnings Company B
Workers	61%	50%
Staff	71	90
Supervisors	119	85
Over-all average	67	80

PART 6: PRIVATE PENSION PLANS

PRESENT SITUATION

84. Contacts with Government, industrial, and life insurance company executives developed the fact that there seems to be no point at which one can learn the extent to which private pension plans supplement the national pension system. The following summarizes what we learned:

(a) Large banks all have private pension or thrift plans; probably many smaller banks as well.

(b) Only a small number of large industrial organizations, chiefly subsidiaries of American corporations, have either private pension or thrift plans of the formal announced type.

(c) Many industrial employers are believed to have granted pensions in the past, and some are supplementing the present more liberal national pensions, insofar as possible upon an informal basis. Employers have naturally tried to avoid incorporating such practices into union agreements.

(d) Since the 1952 social insurance taxes can be increased by Presidential Decree, and benefits may again be increased, employers seem reluctant to commit themselves to supplementing the present benefit scale.

(e) Supervisors generally have a 15% thrift plan at present, and are likely in lieu thereof to be brought under a special section of the national pension plan.

(f) The notice, and especially the service, indemnity payments provide most retiring employees with such large sums that these, plus the national pension, can be held to give the employees reasonable old-age protection.

85. The 1952 law has caused employers to reexamine the whole pension situation, and in due course it is expected that the picture will clarify and that many successful employers will establish supplementary pension plans. While the 1952 law increases prior pensions substantially, many feel that, with comparatively low earnings rates in Italy, which make savings almost impossible, it is essential that liberal retirement incomes be provided through a combination of public and private plans.

FUNDING OF PRIVATE PLANS

86. None of the three largest Italian life insurance companies, which were interviewed, had at the time on its books a single insured private pension plan. The few employers who had private plans handled the financing themselves or had set up special agencies to handle the funds. However, the life insurance companies are interested in writing such plans, and the largest,

Instituto Nazionale Delle Assicurazione (Government owned, and called "I.N.A."), had recently submitted to a number of employers proposals for a plan which it had devised to supplement national pensions and Dirigenti benefits.

87. A preliminary study of this proposal led us to the conclusion that the plan was unnecessarily liberal both as to pensions and death benefits, that the relation of pensions to final earnings left costs too uncertain, and that the cost estimates in the plan we reviewed were low.

88. It takes a long and broad experience to enable sound and reasonable private pension plans to be established, which experience obviously has not yet been had in Italy. A study of the practices of other countries would be helpful, and especially of those in the United States where the attitude toward private pension plans is, on the whole, much more conservative.

SERVICE INDEMNITY FUNDS

89. In Italy, thousands of employers are reported to be using life insurance company facilities to accumulate reserves to guarantee the payment of service indemnities. The reserves already are, or eventually will be, large enough to pay all obligations of the employer were he to cease business. Because the law requires that the beneficiaries of employees who die in service receive a minimum sum equal to credits corresponding to 10 years of service, a small life insurance element is added to the accumulations of reserves. Some employers pay in additional sums, and these, plus interest, and less administrative expense, are paid out to employees or their beneficiaries.

90. There should be some economies if life insurance companies write pension plans for employers whose service indemnity reserves are already in their hands.

91. Incidentally, the life insurance companies who administer these service indemnity reserves offer employees who leave, or the beneficiaries of employees who die in service, an opportunity to buy annuities with these reserves. We are advised, as was to be expected, that very few take advantage of this conservative procedure. Hence, under an over-all pension plan which bases its benefits on the assumption that service indemnity reserves will be used for pensions, the end results will be less favorable than anticipated. The employee may not be deprived of his rights to a cash payment as to such reserves.

ILLUSTRATION OF A PRIVATE PENSION PLAN

92. The essential provisions of the private pension plan of one large bank are as follows:

(a) The normal retirement age is 60 for men and 55 for women, to tie in with the national pension system.

(b) Any service of less than 10 years at age 60/55 bars an employee from a pension.

(c) The benefit rate for those with longer service is 2% per year (including the first 10 years), with a maximum of 70%, based on final earnings.

(d) Employees may retire at an earlier age without discount when they have completed 35 years of service. Early retirement is permissible at age 55/50 after 10 years of service; with employer consent. Retirement is compulsory upon completion of 40 years of service or attaining age 65; in rare cases retirement may be postponed to age 70 or 45 years of service.

(e) Disability pensions are available after 10 years of service, irrespective of age.

(f) Widows receive 60% of the husband's actual or prospective pension, providing they were married at least 2 years. Pension ceases on remarriage.

(g) Half orphans receive 10% each. The first two full orphans receive 25% each; additional full orphans 10% each. Payments are made to age 21, if not working or not married.

(h) One or more dependent parents over the age of 60 receive an aggregate pension of 20%.

(i) From the pensions otherwise due, is deducted any pension paid under a plan or plans established by legislation.

(j) Employees pay 5% of earnings; the employer 15%. From both of these contributions, the pension taxes are deducted; now as to workers and staff 3%, and about 6.2% to the employer. Employee contributions start with employment and are limited to 35 years.

(k) This particular bank made an initial contribution to the plan of more than $1,000,000 at the current rate of exchange.

PART 7: TAX STATUS OF CORPORATIONS AND INDIVIDUALS

CORPORATION INCOME TAXES

93. The income tax on gross corporation profits varies between limits of 25% and 30%.

INDIVIDUAL INCOME TAXES

94. There are two national individual income taxes: No. 1 (flat) and No. 2 (graded).

95. Tax No. 1. The payments required, which where possible are deducted by the employer for transmittal to the Government, are as follows:

(a)	On the first L. 240,000 of annual income	None
(b)	On income between L. 240,000 and L. 960,000	4.2%
(c)	On income over L. 960,000	8.4

96. Tax No. 2. Payments are based on all income, including the first L. 240,000, if the income exceeds that amount. The grading is in very small steps. The following table, showing a very few income classes, will illustrate the taxes payable:

		Rate	Amount
Up to L. 240,000 of annual income		None	
On income between L. 240,000 and L.	245,000	2%	L. 4,800
* * * *			
" " " 1,010,000 "	1,030,000	3.19%	32,538
* * * *			
" " " 3,225,000 "	3,275,000	5.01	162,825
* * * *			
" " " 10,100,000 "	10,300,000	8.18	834,360
On income of L. 500,000,000		50.0	250,000,000

97. 50% is the maximum No. 2 rate. Since it is applied after the No. 1 tax, the combined maximum tax rate is just under 58.4%.

PAYMENTS INTO PLANS

98. Broadly speaking, any payments (taxes and contributions) made by employers or employees to Government plans or to those sponsored by the Government are deductible insofar as income tax is concerned. This is true of the national pension system, of various Government pension plans, and of plans for special private employing groups whose employees do not come under the national pension system, but for whose plans I.N.P.S. handles the funds.

99. The substantial contributions referred to in paragraphs 78 to 83 apparently all constitute deductible expense.

100. No income tax deductions are allowed to employers or employees on contributions to private pension plans.

PAYMENTS FROM PLANS

101. All forms of income, except under compulsory insurance plans, are subject to income tax if the total taxable income is in excess of tax-free amounts.

102. Where large payments are received in any one year, as from service indemnity payments, a severe No. 2 tax penalty is avoided by the application of a rule that the net sum, after Tax. No. 1 has been deducted, is divided by as many years as the employee has been in the plan. If the total does not

exceed L. 600,000, no further tax is due; if it does, Tax No. 2 is due and is calculated in the following manner: the service indemnity payment is divided by as many years as the employee has been in the plan; the resulting amount establishes the rate of taxation, as per paragraph 96. This rate is applied to the total amount due for the service indemnity.